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/157 R

DRAFTED BY EB/ IFD/ ODF: MCASSE: TREAS: HSHAPIRO: AB

5/31/73 EXT. 21548

APPROVED BY AA/ ASIA: DGMACDONALD

EB/ IFD/ ODF: SWEINTRAUB (SUBS)

TREAS: RLARSEN (SUBS)

DESIRED DISTRIBUTION

7 C ACTION ASIA INFO EXSEC PA PPC4 GC GCFLD GCASIA CIAX

DODX FSR NSC CLASS TRSY XMB 41 P

----- 092773

P R 010006 Z JUN 73

FM SECSTATE WASHDC

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E. O. 11652 GDS

TAGS: EFIN, EAID, PK, BG, IBRD

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SUBJECT: PAKISTAN/ BANGLADESH DEBT: MAY 30 CREDITORS MEETING

SUMMARY: CREDITORS MEETING MAY 30 ON PAKISTAN DEBT

QUESTION REJECTED IBRD PROPOSAL TO " HOLD". AFTER EXTENDED

AND INVOLVED DISCUSSION, U. S. PROPOSAL SUPPORTED PRINCIPALLY BY FRANCE AND JAPAN EMERGED AS BASIS FOR CONSENSUS TO BE FINALIZED AT JUNE 15 MEETING AFTER ALL DELS CONSULT WITH CAPITALS. PRINCIPAL POINTS REQUIRING FURTHER CLARIFICATION INVOLVE (1) MAINTENANCE OF CREDIBLE POSITION WITH BANGLADESH; (2) EXACT FORMULATION OF PLAN TO RELIEVE PAKISTAN OF RESPONSIBILITY TO SERVICE " BANGLADESH" PROJECTS. POSSIBILITY OF FULL- TIME CONSULTANT RECEIVED SUPPORT OF SEVERAL MAJOR DELEGATIONS AND WILL BE SERIOUSLY STUDIED. PRODUCTIVE OUTCOME OF MEETING REQUIRED PERSISTENCE ON PART SEVEAL DELS, INITIATED BY U. S. TO ACHIEVE MEETING OF MINDS AND ADVIOD PREMATURE ADJOURNMENT. CHAIRMAN TO INFORM GOP OF (1) REJECTION OF HOLD; (2) FORMULATION OF NEW PROPOSAL BY CREDITORS, OUTLINES OF WHICH HE WILL NOT RPT NOT PROVIDE AT THIS TIME; (3) NO OFFICIAL COMMUNICATION TO BDG AT THIS TIME.

1. CHAIRMAN' S OPENING STATEMENT REVIEWED HISTORY OF PROBLEM AND CITED SEVERAL COMMENTS HE HAD RECEIVED WHICH WERE COMMON TO MANY CREDITORS INCLUDING (1) DESIRE TO REMOVE CONDITIONALITY, (2) REQUIREMENTS OF CONTINUITY OF RESPONSIBILITY FOR TOTAL DEBT, (3) POSSIBILITY OF TRYING FOR THE INTERIM ARRANGEMENT INCLUDING A RESCHEDULING OF ALL DEBTS ASSIGNED BY GOP TO BANGLADESH, (4) NEED FOR AN INTERMEDIARY (CARGILL CITED BDG REFUSAL OF IDEA, AND SUGGESTED IT PREMATURE AND COULD BE INTERPRETED AS FAVORABLE TO GOP). HE REVEALED THAT AN IBRD LEGAL STUDY HAD CONCLUDED (A) THE OPINION CIRCULATED BY PAKISTAN WAS WORTH LITTLE AND (B) PAKISTAN IS THE LEGAL DEBTOR IN PERPETUITY, EXCEPT BY AGREEMENT. HE FURTHER REVEALED THAT THE IBRD EXECUTIVE BOARD HAD DECIDED THAT THE BANK GROUP COULD NOT PARTICIPATE IN A RESCHEDULING, NOR IN THE PROPOSED " HOLD" AND THAT THE GOP HAD BEEN NOTIFIED OF THIS.

2. THE CHAIRMAN SUGGESTED THAT THE " HOLD" PROPOSAL WAS CONFIDENTIAL

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BASED ON THE UNWAVERING POSITIONS OF THE GOP AND BDG AS RELAYED TO HIM, AND ASKED IF ANY EVIDENCE WAS AVAILABLE WHICH SUGGESTED OTHERWISE. THE FRENCH DEL (NEBOT) REPORTED ON BDG ACCEPTANCE OF ONGOING AND COMPLETED PROJECTS WHICH HAD BEEN FINANCED BY YUGOSLAVIA. CARGILL QUESTIONED THE FACT, BUT AGREED FURTHER INVESTIGATION WOULD BE USEFUL. U. S. DEL SUGGESTED THAT FIRM GOP POSITION COMPLETELY PREDICTABLE AS TACTICAL STANCE ON EVE THIS CONSORTIUM MEETING AND CITED NUMEROUS EARLIER INDICATIONS USG HAD RECEIVED THAT GOP PREPARING FALL- BACK POSITION.

3. AFTER OPENING STATEMENTS BY EACH DELEGATION, A DISCUSSION ENSUED WHICH WAS PUNCTUATED WITH " SHOW OF

HANDS" REQUESTS FROM THE CHAIR ON VARIOUS PROPOSALS AND CHARACTERISTICS OF PROPOSALS. ATTEMPTS TO DRAW CONCLUSIONS SUPPORTING THE " HOLD" WERE MET BY STRONG STATEMENTS FROM U. S., FRENCH, AND JAPANESE DELEGATIONS. GIVE AND TAKE AMONG DELEGATIONS, WITH U. S. AND FRANCE AS PRIMARY AND JAPANESE AND GERMAN SECONDARY MOVERS OF U. S. POSITION, EVENTUALLY RESULTED IN A CONSENSUS USING THE U. S. PROPOSAL AS A BASE. AT TWO POINTS EARLY IN DISCUSSION, CHAIR SUGGESTED MEETING SHOULD BE ADJOURNED TO ALLOW FOR FURTHER CONSULTATION IN CAPITALS, CITING THE JUNE 15 INDIA CONSORTIUM MEETING AS A CONVENIENT TIME FOR RECONVENING. IN FIRST INSTANCE, U. S. DEL EXPRESSED STRONG DISAPPOINTMENT WITH SUGGESTION MEETING BE ADJOURNED SO INCONCLUSIVELY AND PRESSED FOR FURTHER DISCUSSION TO SEEK CONSENSUS NOW. HE POINTED OUT FIRST QUESTION WAS WHAT CONSORTIUM WOULD TELL GOP HAD BEEN GROUP'S DECISION ON BANK'S PROPOSAL TO " HOLD".

4. AS RESULT POINTED QUESTIONS FROM U. S., FRENCH AND JAPANESE DELS, LATER CONSENSUS BEGAN TO EMERGE. FOLLOWING SOME CLARIFYING REMARKS BY U. S. DEL, CHAIR BEGAN TO FACILITATE CONSENSUS FORMING AROUND U. S. PROPOSAL. PRODUCTIVE OUTCOME OF MEETING WAS ACHIEVED THROUGH PERSISTENCE SEVERAL DELS, INITIATED BY U. S. BUT WITH STRENGTHENING SUPPORT FROM MAJOR DONORS EXCEPT UK, TO FORMULATE ACTIVE PROPOSAL FROM THE CREDITORS.
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5. FOLLOWING IS INITIAL AND ULTIMATE COUNTRY POSITIONS DURING DISCUSSIONS: (A) UK DEL BEGAN BY INDICATING THEY SAW SITUATION MUCH AS DID U. S. HOWEVER, THEY DIFFERED WITH THE U. S. PROPOSAL IN THAT THEY DID NOT WANT TO OPEN UP A " GAP" IN LIABILITY FOR EAST PAK PROJECTS. THEY WERE CONCERNED ABOUT BANGLADESH PROJECT DEBT NOT BEING THE EXPLICIT RESPONSIBILITY OF EITHER BANGLADESH OR PAKISTAN. THE UK DEL ALSO OBJECTED TO U. S. PROPOSAL ON GROUNDS THAT IT OFFENDED PRINCIPLE OF EVENHANDEDNESS BY GIVING SOMETHING TO PAKISTAN BUT NOT TO BANGLADESH. UK PUT FORWARD MODIFICATION OF IBRD PROPOSAL THAT IT BE MADE CLEAR TO BOTH PARTIES WHAT WAS EXPECTED DURING THE ONE- YEAR " HOLD" PROPOSED BY IBRD. BUT UK INDICATED THEY WOULD ACCEPT U. S. POSITION IF GOP NOT RELIEVED OF RESPONSIBILITY FOR BANGLADESH PROJECT DEBT. UK THOUGHT MEDIATOR PROPOSAL PREMATURE. UK ULTIMATELY SAID THAT ABSOLUTION OF GOP FROM BANGLADESH PROJECT DEBT WOULD BE ACCEPTABLE IF PARI PASSU BDG WOULD BE PRESSED TO ACCEPT RESPONSIBILITY FOR ITS PROJECTS. UK DEL TO CHECK WITH GOVERNMENT.

(B) SWEDEN. DEL EXPRESSED CONCERN ABOUT RELIEVING GOP OF RESPONSIBILITY FOR BDG PROJECT DEBT. THEY FAVORED LONG- TERM RESCHEDULING FOR BOTH COUNTRIES. SWEDEN

PREFERRED IBRD PROPOSAL.

(C) NETHERLANDS. DEL INITIALLY INDICATED THEY COULD GO ALONG WITH EITHER UK OR IBRD PROPOSALS. THEY THOUGHT POINT 2 IN U. S. PROPOSAL (I. E., RELIEVE GOP OF RESPONSIBILITY FOR BDG PROJECT DEBT) WAS MOVING TOO FAST AND TOO FAR. THEY DID NOT WANT TO SET AN EXACT DATE FOR RELIEF OF RESPONSIBILITY FOR DEBT. THEY ULTIMATELY INDICATED THEY WOULD FAVOR U. S. PROPOSAL IF POINT 2 WERE REWORDED. THEY WOULD HAVE TO CHECK WITH GON, HOWEVER.

(D) JAPAN. DEL BEGAN BY INDICATING THEY DID NOT SHARE IBRD OPTIMISM IN FIRST CARGILL LETTER REGARDING PROSPECTS FOR POLITICAL MOVEMENT IN SOUTH ASIA. TURNING TO IBRD PROPOSAL, THEY SAID IT WOULD HARDEN CURRENT GOP POSITION BY GIVING IMPLICIT CREDITOR CONSENT TO GOP DEBT
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DIVISION. GOJ MENTIONED JAPAN'S LEGAL REQUIREMENTS IN CASE OF DEFAULT (I. E., IMMEDIATE CESSATION OF AID INCLUDING PIPELINE REVERSIBLE ONLY WITH REFERENCE TO PARLIAMENT). DEL CITED APPOINTMENT OF INTERMEDIARY AS A MAJOR FACT OF GOJ POSITION. DEL SAW MERIT IN U. S. PROPOSAL. IT IS POSITIVE ACTION BY CREDITORS, WHEREAS IBRD " HOLD" IS PASSIVE AND A WASTE OF TIME. SHARED UK CONCERN ON RELIEVING GOP OF BDG PROJECT DEBT BEFORE BDG ACCEPTS RESPONSIBILITY. RESPONDED FAVORABLY TO CARGILL QUESTION REGARDING RESCHEDULING BDG PROJECT DEBT. JAPAN DEL TO CHECK WITH GOVERNMENT TO SEE IF U. S. PROPOSAL ACCEPTABLE.

(E) ITALY. DEL EXPRESSED WILLINGNESS, IN PRINCIPLE, TO DIVIDE DEBT BETWEEN GOP AND BDG AND TO RESCHEDULE DEBT FOR BOTH COUNTRIES. ACCORDING TO ITALIAN LAW, BDG CAN REFUSE RESPONSIBILITY FOR ALL EXTERNAL DEBT UNTIL GOP EXTENDS RECOGNITION TO BDG AND AGREES TO SETTLEMENT REGARDING EXTERNAL DEBT. UNTIL THEN, ITALY CAN'T RELIEVE GOP OF RESPONSIBILITY. ALL ITALIAN CREDITS COVERED BY INSURANCE WHICH MUST BE PAID AFTER SIX MONTHS OF DEFAULT. IF GOP DOES NOT PAY ANY INSTALLMENT DUE AFTER JULY 1, 1973, ITALY MUST DECLARE DEFAULT IN SIX MONTHS AND CANNOT PROVIDE NEW CREDITS TO GOP. ITALIAN DEL COULD ONLY ACCEPT ONE YEAR EXTENSION DURING WHICH CREDITORS MUST CONVINCE GOP AND BDG TO SETTLE WITH EACH OTHER AND PROVIDE LONG-TERM RESCHEDULING WHICH MUST BE SIGNED BEFORE JULY 1, 1974; IF ONE YEAR EXTENSION REJECTED, ITALY WILL PRESS IBRD TAKE ACTIVE ROLE TO OBTAIN SETTLEMENT WITHIN SIX MONTHS TO AVOID FORMAL FINDING OF DEFAULT. ITALY EXPLICITLY REJECTED IBRD PROPOSAL.

(F) GERMAN. DEL INDICATED INITIAL POSITION BY CITING GENERAL AIMS. CREDITORS MAINTAINING UNIFORM POSITION

FORESTALL DEFAULT AND FACILITATE EARLY DIVISION OF DEBT.
THEY AGREED STEP BY STEP PROCEDURE DESIRABLE, FIRST
DEFINING ONGOING PROJECTS, THEN COMPLETED PROJECTS,
DEVELOPMENT BANK LOANS, AND FINALLY COMMODITIES. OFFER
ONE YEAR EXTENSION TO BUY TIME AND PREPARE FOR LONG- TERM
RESCHEDULING, GOP REMAINING RESPONSIBLE FOR ALL DEBT IN
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MEANTIME. IN ORDER COVER ALL " BANGLADESH" DEBTS, FRG
WOULD INCLUDE PRIVATE SUPPLIERS CREDITS IN THE
RESCHEDULING, BUT WOULD NEED PRIOR APPROVAL FROM FIRMS.
GERMAN DEL INDICATED U. S. PROPOSAL SECOND

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Message Attributes

Automatic Decaptioning: X
Capture Date: 10 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONFIDENTIAL
Control Number: n/a
Copy: SINGLE
Draft Date: 01 JUN 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973STATE105167
Document Source: ADS
Document Unique ID: 00
Drafter: EB/ IFD/ ODF: MCASSE: TREAS: HSHAPIRO: AB
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730635/abqcompqg.tel
Line Count: 230
Locator: TEXT ON-LINE
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 07 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07-Aug-2001 by kellerpr>; APPROVED <12-Sep-2001 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> wfs 980213
Subject: PAKISTAN/ BANGLADESH DEBT: MAY 30 CREDITORS MEETING
TAGS: EAID, EFIN, BG, PK, IBRD
To: ISLAMABAD
DACCA INFO BRUSSELS
BONN
THE HAGUE
LONDON
PARIS
ROME

STOCKHOLM

TOKYO

OTTAWA

Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005